

No. 15831

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

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SANI-TOP, INC., a Corporation,

*Appellant,*

*vs.*

NORTH AMERICAN AVIATION, INC., a Corporation,

*Appellee.*

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## APPELLANT'S OPENING BRIEF.

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HERZIG & JESSUP,

By WARREN T. JESSUP,

727 West Seventh Street,

Los Angeles 17, California,

*Counsel for Plaintiff-Appellant.*

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**APPELLANT'S OPENING BRIEF.**

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**Pleadings and Facts.**

This suit was opened in the District Court of the United States for the Southern District of California, Central Division, by the filing of a Complaint for Declaratory Relief [Tr. pp. 3-8], accompanied by a supporting Affidavit [Tr. pp. 9-12].

Original jurisdiction of the District Court is sustained by Title 28 U. S. C. Sections 1338(a) and 2201, reading as follows:

28 U. S. C. 1338. (a) "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases."

28 U. S. C. 2201. "In a case of actual controversy within its jurisdiction, except with respect to Federal taxes, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be viewable as such."

On defendant's motion and before trial, the District Court dismissed plaintiff's complaint for lack of jurisdiction, and it is from that dismissal that this appeal is taken. Therefore, virtually the entire record in this case will be relied on by plaintiff to establish that there is jurisdiction in the District Court, since that is the subject matter of this appeal. Primarily, those portions of the record which establish jurisdiction in the District Court are Transcript pages 3-5, and particularly paragraph 6 of the complaint; pages 9-12; pages 30-31; and page 42.

### **Statement of the Case.**

Plaintiff filed a Complaint for Declaratory Relief [Tr. pp. 3-8], accompanied by a supporting Affidavit [Tr. pp. 9-12]. Defendant thereupon moved to dismiss on the ground that the District Court did not have jurisdiction because there did not exist an actual controversy between the parties [Tr. pp. 12-13]. After hearing argument, the District Court granted the motion and accordingly dismissed plaintiff's complaint [Tr. pp. 41-42]. Plaintiff thereupon filed this present appeal involving the proposition that an actual controversy did and does exist between the parties, and therefore the District Court did and does have jurisdiction of plaintiff's complaint.

## Specification of Errors.

The District Court erred:

(1) In resolving, on defendant's Motion to Dismiss, that as a question of fact, an actual controversy does not exist between the parties such as to establish jurisdiction of this claim in the District Court [Tr. pp. 41-42].

(2) In dismissing plaintiff's complaint, on defendant's Motion to Dismiss [Tr. p. 42].

(3) In refusing to require defendant to state whether defendant charged plaintiff with infringement of patent No. 2,433,643 [Tr. pp. 37, 42].

## ARGUMENT OF THE CASE.

### 1. History.

Defendant North American is the owner of patent No. 2,433,643 relating to a process for postforming laminated plastic sheets of the kind marketed, for example, under the trademark Formica [Tr. p. 4, and p. 1 of Herzig Affidavit accompanying Notice of Motion and Motion for Stay of Action].

This general type of process is being used by approximately 2,000 fabricating companies, so that defendant's patent may sit astride an entire industry, namely, the fabrication of plastic sink tops and the like [pp. 1 and 2 of Herzig Affidavit, cited above].

From time to time, since issuance of the patent in 1947, defendant North American granted several hundred licenses, largely to sink top manufacturers [p. 1 of Herzig Affidavit], all being in substantially the same form [as illustrated in Exhibit A referred to on page 1 of Supplementary Memorandum of Points and Authorities in Sup-



port of Motion for Stay]. Among these licensees was plaintiff Sani-Top [Tr. p. 10].

The general consensus of the postforming industry, both licensed and unlicensed, is that defendant's patent is invalid, having been anticipated by numerous other prior uses and sales, and that the patented process is so narrow in its scope that most of the industry does not use the patent [p. 2 of Herzig Affidavit].

Seeking advice of counsel for the first time, plaintiff Sani-Top, when advised that its process did not come within the patent and that the patent was invalid, repudiated the license on or about October 22, 1956, and refused to pay royalties [Tr. p. 10, p. 2 of Herzig Affidavit].

Defendant North American, on November 13, 1956, filed action against plaintiff Sani-Top, No. 20723, and against another licensee, Bonded Products Co., who had made a similar renunciation, this being Action No. 20724 [p. 3 of Herzig Affidavit]. The prayer of North American in action No. 20723 against Sani-Top was for royalties "since August 20, 1951" [p. 3 of Herzig Affidavit].

Sani-Top answered and included affirmative defenses and counterclaims, a copy being filed with this Court (page 2 of Supplementary Memorandum of Points and Authorities in Support of Motion For Stay). In response thereto, on January 31, 1957, North American moved to strike and dismiss, arguing *inter alia*:

"However plaintiff chose to consider at that date (October 22, 1956) and until January 1, 1957, the license agreement still in force . . ." (page 3 of the aforesaid Supplementary Memorandum, parenthetical material added).



In oral argument on the motion, on April 8, 1957, counsel for North American stated:

“It (Sani-Top) is a fabricator of the material. It provides the raw material. It uses the process. It bends the material.”

“Now the defendant (Sani-Top) is using the process continuously and is not paying royalties. We believe that an accounting is necessary to determine the exact amount owing.” [Tr. p. 10.]

Continuing the argument, Counsel for North American stated:

“We may of course at a later date in another proceeding, file an infringement case, but that is our (North American’s) choice and not the defendant’s (Sani-Top’s) choice.” [Tr. p. 24.] (Parenthetical material added.)

Based on this clear indication by North American that North American regarded Sani-Top’s current (April, 1957) activities as coming within the patent, the present complaint for declaratory relief was filed by Sani-Top on July 9, 1957.

Defendant North American moved to dismiss, and in the course of hearing on that motion, counsel for North American, attempting to construe the statements he made on April 8, 1957, stated:

“I categorically deny that I intended to state that subsequent to September 30, 1956, plaintiff herein was using the postforming process or that it was in any way infringing Patent No. 2,433,643.”

“North American Aviation, Inc. did not in those cases, take any positions whatever with respect to

whether the licensees were or were not obligated to pay royalties after September 30, 1956." [Tr. p. 15.]

The District Court granted the Motion to Dismiss [Tr. pp. 40-42], whereupon this present appeal was taken.

Although defendant North American has studiously avoided making an unequivocal charge of infringement using the term "infringement", the position taken and the statements made on behalf of North American have been such as to leave plaintiff Sani-Top with the indelible impression that North American regards the process presently being practiced by Sani-Top as an infringement of North American's patent. It was on this reasonable apprehension by Sani-Top that the present action was filed in the District Court.

Notwithstanding North American's delimiting of the scope of its license law suit, successively, first from an unlimited time, then cutting off at January 1, 1957, and finally cutting off at September 30, 1956, defendant North American insisted upon inspecting the premises of plaintiff Sani-Top to determine exactly *what process plaintiff Sani-Top was practicing in January 1958*. This inspection was ordered by the District Court over Sani-Top's objections, and was duly carried out [page 4 of Affidavit of Albert M. Herzig, accompanying Notice of Motion and Motion For Stay of Action].

The principal issue of this appeal is whether a controversy exists between the parties such as to permit plaintiff to have a judicial declaration concerning whether plaintiff's process infringes defendant's patent and whether defendant's patent is valid.

## 2. Preamble.

*Borchard*<sup>1</sup> points out that the problem of judicial declaratory judgments is worldwide, being found not only in the English common law but in practically all other judicial systems. In the United States it has found expression in state and federal statutes and in state and federal court decisions. In order to prevent courts from being burdened with mere academic or moot questions the statutes, both state and federal, require that there be an "actual controversy" before the court can act.

Some legal scholars have taken the position that declaratory judgment jurisdiction was inherent in our courts, both state and federal. This question became only of academic interest in 1934, insofar as federal courts are concerned, with the passage of the Declaratory Judgment Act.

The Act as applied to patents is summarized by *Borchard*<sup>1</sup> at page 803:

"Unfair Privilege of Patentee Before 1934:

"As the law stood prior to 1934, when the Federal Declaratory Judgment Act (FDJA) was passed, the patentee was the only one in a position to initiate a suit, usually an action for damages and an accounting, with or without an injunction, against the alleged infringer or his dealers."

In the 1941 *Tremond*<sup>2</sup> case the Third Court of Appeals discussed the scope of jurisdiction under the Act at considerable length.

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<sup>1</sup>*Borchard: Declaratory Judgments* (2d Ed.), 1941.

<sup>2</sup>*Tremond v. Schering Corp.* (C. C. A. 3, 1941), 122 F. 2d 702, 50 U. S. P. Q. 593.

In the *Federal*<sup>3</sup> case the same court pointed out that inferences most favorable to the plaintiff must be taken on a motion to dismiss Declaratory Judgment Act complaint.

### 3. Ninth Circuit Decisions.

Within this Circuit there has been little occasion to inquire into the question raised in this Appeal. Only three cases have been found bearing on the specific question of the type of defendant's activity which gives rise to an actual controversy. All three cases have held that an actual controversy did exist.

The first is the *Caterpillar*<sup>4</sup> case wherein defendant had charged infringement by "the track type tractors which you (plaintiff) have brought out." Plaintiff took the position that this included one of plaintiff's models in process of production but not yet on sale. The District Court agreed with defendant that plaintiff's new tractor could not be included in the Declaratory Judgment action, but the Appeal Court reversed, holding that a controversy existed as to the new model, as well as the old models.

In the *Crowell*<sup>5</sup> case, defendant had once sued plaintiff for patent infringement but had subsequently dismissed without prejudice. Four years later plaintiff brought suit for declaratory judgment predicated on defendant's earlier patent infringement suit. The District Court dismissed plaintiff's complaint, but was reversed by this Appeal

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<sup>3</sup>*Federal v. Associated* (C. C. A. 3, 1948), 169 F. 2d 1012, 78 U. S. P. Q. 1.

<sup>4</sup>*Caterpillar v. International* (C. C. A. 9, 1939), 106 F. 2d 769, 43 U. S. P. Q. 160.

<sup>5</sup>*Crowell v. Baker* (C. C. A. 9, 1944), 143 F. 2d 1003, 62 U. S. P. Q. 176.

Court which held that plaintiff was still under sufficient jeopardy to create an actual controversy under the act.

In the *Fluorescent*<sup>6</sup> case the District Court (Judge Mathes) held:

“ . . . an ‘actual controversy’ is presented if the patent owner has made statements to the trade that his patent is being infringed by a line of goods whether or not the identity of the alleged infringer is known when the statements are made.”

#### 4. Charge of Infringement.

In the present case, it appears that the District Court feels that relief cannot be granted in the absence of an express charge of infringement; but at the same time the Court has refused to require North American to affirm or renounce its position in this matter [Tr. pp. 30, 31, 42]. The cases clearly indicate that an express charge of infringement is not necessary to confer jurisdiction. An actual controversy exists if the patent owner has given even a general indication which reasonably causes a manufacturer to be apprehensive that his process is regarded by the patent owner as coming within the patent. In the *Technical*<sup>7</sup> case the Second Circuit Appeal Court noted:

“Once the patentee has made some claim directly or indirectly, so that notice is given that it asserts that there is or will be an infringement, a justiciable controversy exists, entitling the alleged infringer to seek declaratory relief.”

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<sup>6</sup>*Fluorescent v. Gantner* (D. C. Cal., 1950), ~~99 Fed. Supp. 800~~, 86 U. S. P. Q. 67.

<sup>7</sup>*Technical v. Minnesota* (C. A. 2, 1952), 200 F. 2d 876.

The Court thereupon reversed the District Court, which has dismissed the complaint on the ground that there was no justiciable controversy, because an actual charge of infringement had not been made.

In the *Dewey*<sup>8</sup> case the defendant (patent owner) had previously brought a patent infringement suit against a third party who was using the same process that was being used by plaintiff. About the same time plaintiff and defendant had conducted certain negotiations looking toward the possibility of a license, but these negotiations terminated fruitlessly. Defendant had never charged plaintiff with infringement and in fact did not even know what process the plaintiff was using. Plaintiff's Complaint for Declaratory Judgment was dismissed by the District Court on the ground that defendant had never threatened to sue plaintiff and in fact never even knew that plaintiff was infringing until the institution of the suit. The Third Circuit Appeal Court reversed and remanded, holding that all of the facts indicated an actual controversy between the parties, and saying at page 70 of 137 F. 2d:

"In its suit against the Lee-Tex Company. Anode has asserted that the coagulant-dip process practiced by that company constitutes an infringement. It is not denied that Anode has thus publicly asserted such a scope for its patent claims as to embrace the similar methods practiced commercially by Dewey & Almy. We think this assertion evidences the existence of a substantial controversy between Anode and Dewey & Almy (parties manifestly having adverse legal interests), 'of sufficient immediacy and reality to want the issuance of a declaratory judgment.'

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<sup>8</sup>*Dewey v. American* (C. C. A. 3, 1943), 137 F. 2d 68, 58 U. S. P. Q. 456.



“Certainly the fact that Anode had never made any direct threat to sue Dewey & Almy, is not conclusive of the problem. In *E. W. Bliss Co. v. Cold Metal Process Co.*, 102 F. 2d 105 . . . (C. C. A. 6th, 1939), an actual controversy was held to exist although it was evident *that the patentee was exerting every effort to avoid entanglement in litigation with the particular alleged infringer seeking the declaration.* . . .

“The fact that Anode did not learn until the present complaint was filed that Dewey & Almy was practicing the coagulant-dip process commercially, does not negative the existence of a case of actual controversy between them. If Anode had published a printed notice or circular asserting that use of the described coagulant-dip process constitutes an infringement of its patents this would undoubtedly mark the existence of an actual controversy between the patentee and all persons who engaged in practicing the process, whether they were known to the patentee or not.” (Emphasis added.)

Certiorari was denied. U. S. S. C. 1943, 64 S. Ct. 70; 320 U. S. 761; 59 U. S. P. Q. 495.

In the present case defendant has clearly and unmistakably taken the position, in the course of the license suit No. 20723, that plaintiff's activities come within the scope of the Beach patent [Tr. pp. 10-11]. In the language of the *Dewey*<sup>8</sup> case, this undoubtedly marks “the existence of an actual controversy between the patentee and all persons who engage in practising the process”, *i.e.*, the process which North American has stated comes within the North American patent; although the defendant is “exerting

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<sup>8</sup>*Dewey v. American, supra.*



every effort to avoid entanglement in litigation with the particular alleged infringer seeking a declaration” [Tr. p. 15].

In the *Millway*<sup>9</sup> case the defendant had never charged plaintiff with patent infringement but had on numerous occasions taken the position that stockings exactly like those manufactured by plaintiff were within the scope of defendant’s patents. The District Court held that the conduct of the defendant created an actual controversy, saying:

“ . . . it is perfectly clear—in fact, it was *so stated by the defendant’s counsel at the argument of this motion*—that the defendant considers that the stocking made and sold by the plaintiff infringes the defendant’s patent, and it is the fact that the defendant has consistently maintained that position publicly, in court and out of court.” (Emphasis added.)

In the present situation counsel for defendant has stated in open court that the process used by plaintiff comes within the Beach patent [Tr. p. 10].

In the *Rhodes*<sup>10</sup> case the court sustained its jurisdiction under the Act noting:

“The defendant apparently believes that it can avoid a court test of the validity of its patent, and the claim as to its scope made to the trade by withholding formal claim of infringement. This is not the law. Even a person who is about to engage in conduct which a patentee has *generally indicated* would constitute an infringement may bring a declaratory relief action

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<sup>9</sup>*Millway v. Sanson* (D. C. Pa., 1952), 108 Fed. Supp. 5, 95 U. S. P. Q. 42.

<sup>10</sup>*Rhodes v. Dolcin* (D. C. N. Y., 1950), 91 Fed. Supp. 87, 86 U. S. P. Q. 148.

before he is damaged. See Borchard, *Declaratory Judgment* (2d ed.) page 807.” (Emphasis added; also citing *Dewey*<sup>8</sup>.)

### 5. Defendant's Evasion.

*Borchard* at page 42 points out the danger of allowing a patentee to circumvent the intent of the Act by refusing to make a formal charge of infringement.

“Thoughtful students have pointed out that the term ‘actual controversy’ may result in a limitation on the proper power of courts to remove clouds from legal relations, simply because the defendant or potential ‘contradictor’ declines to appear or to contest the petitioner’s assertion.”

Throughout this entire controversy defendant has circumspectly and studiously evaded the term “infringement” with respect to plaintiff’s activities. Counsel for defendant in his affidavit of September 17, 1957, stated:

“North American Aviation Inc. did not in those cases, take any position whatever with respect to whether the licensees were or were not obligated to pay royalties after September 30, 1956.” [Tr. p. 15.]

But this is not so. On November 13, 1956, after Sani-Top’s repudiation of the license, on October 22, 1956, in Complaint No. 20723, North American (defendant herein) demanded an accounting from Sani-Top (plaintiff herein) in the following language:

“That an accounting be ordered to accurately determine the amount of all laminated sheet material postformed by defendant under said Process since August 20th, 1951, and the amount of royalties or

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<sup>8</sup>*Dewey v. American, supra.*

license fees payable by defendant to plaintiff.” [Tr. p. 11.]

It will be noted that this constitutes a demand for an accounting extending indefinitely into the future, which demand could be predicated only on the patent and not on the terminated license.

The court will note that in this demand of November 13, 1956, no limit is placed on the termination of the accounting, and the reasonable interpretation of this language is that North American is demanding an accounting from August 20, 1951, through November 13, 1956, and indefinitely beyond. Thus plaintiff Sani-Top was reasonably apprehensive that defendant North American took the position that Sani-Top's activities constituted an infringement of the Beach patent, since this demand for an accounting included an indefinite period beyond the license demand, which was later delimited by North American to end on September 30, 1956 [Tr. p. 15].

Faced with this untenable situation, plaintiff Sani-Top followed the suggestion of the Court in the *Clair*<sup>11</sup> and *Salem*<sup>12</sup> cases.

“ . . . if a manufacturer fears that he will be charged to infringe, he can always inquire of the patentee, and if the answer is unsatisfactory, he can bring an action for a declaratory judgment. The time has now passed when a patentee may sit by and refuse to show his hand.”

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<sup>11</sup>*Clair v. Kastar* (C. C. A. 2, 1945), 148 F. 2d 644, 65 U. S. P. Q. 143, cert. den. 326 U. S. 762, 90 L. Ed. 459, 66 S. Ct. 143.

<sup>12</sup>*Salem v. National* (D. C. Pa., 1948), 75 Fed. Supp. 993, 76 U. S. P. Q. 255.

Thereupon, by way of interrogatories, plaintiff Sani-Top asked defendant North American, *inter alia*:

“Is it the position of North American Aviation, Inc., that Sani-Top, Inc., is infringing or is not infringing United States Patent No. 2,433,643?” [Tr. pp. 30, 31.]

The defendant's answer was unsatisfactory, *i.e.*, defendant refused to answer [Tr. p. 37], and was sustained in this refusal by the District Court [Tr. p. 42].

This action for declaratory judgment therefore has proper antecedent.

North American's attitude in this matter has been clearly stated by its counsel:

“We may of course at a later date in another proceeding file an infringement case, but that is our choice and not the defendant's choice.” [Tr. p. 24.]

It is exactly just such a position that the Declaratory Judgment Act was designed to handle.

Having given many indications that Sani-Top's activities are regarded as coming under its Beach patent, defendant North American should not be permitted to allow this cloud to hover over plaintiff Sani-Top by circumspectly avoiding use of the word “infringement”. In view of this history, plaintiff Sani-Top is entitled to a categorical statement of position, which defendant North American has studiously refused [Tr. pp. 15, 37.]

In the *Dewey*<sup>8</sup> case the Third Circuit Court of Appeals commented:

“Certainly the fact that Anode had never made any direct threat to sue Dewey & Almy, is not conclusive

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<sup>8</sup>*Dewey v. American, supra.*

of the problem. In *E. W. Bliss Co. v. Cold Metal Process Co.*, 102 F. 2d 105 . . . (C. C. A. 6th, 1929), an actual controversy was held to exist, although it was evident *that the patentee was exerting every effort to avoid entanglement in litigation with the particular alleged infringer seeking the declaration. . . .*"

The reason for defendant's coyness is obvious. With the threat of its patent (which plaintiff believes to be invalid, defendant can make small manufacturers like the plaintiff build up potentially bankrupting liability without opportunity to test the validity of the patent. This is a threat which only the most courageous could countenance, and then at the risk of their very business lives. It is manifestly against public policy to allow scarecrow patents to dominate an industry in this manner.

## 6. The Contract Action Raises an Actual Controversy.

The very prosecution of a contract action after the termination of the contract raises a controversy between the parties as to the plaintiff's continuing operations identical with its operations during the period of the contract [Tr. pp. 10, 11, 30, 31].

The *Altwater*<sup>13</sup> case shows that the very bringing of a suit on a license contract creates a justiciable controversy as to whether the patent is or is not infringed by the operations of the licensee or ex-licensee. In this case, Freeman (licensor) sued Altwater (licensee) for specific performance and an accounting under a license contract. Altwater counterclaimed for a declaration of non-in-

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<sup>13</sup>*Altwater v. Freeman* (U. S. S. C., 1943), 319 U. S. 359, 87 L. Ed. 1450, 63 S. Ct. 1115, 57 U. S. P. Q. 285.

fringement and invalidity. The Court of Appeals for the 8th Circuit held that the counterclaims were moot (*Freeman v. Altvater* (C. C. A. 8th 1942), 129 F. 2d 494; 54 U. S. P. Q. 218).

The Supreme Court<sup>13</sup> reversed this holding, noting:

“The requirements of case or controversy are of course no less strict under the Declaratory Judgment Act . . . than in case of other suits . . . But we are of the view that the issues raised by the present counterclaim were justiciable and that the controversy between the parties did not come to an end . . . on the dismissal of the bill for non-infringement, since their dispute went beyond the single claim and the particular accused devices involved in that suit.

“ . . .

“ . . . The fact that royalties were being paid did not make this a ‘difference or dispute of a hypothetical or abstract character,’ . . . A controversy was raging, even apart from the continued existence of the license agreement . . . Royalties were being demanded and royalties were being paid. But they were being paid under protest and under the compulsion of an injunction decree. It was to lift the heavy hand of that tribute from the business that the counterclaim was filed. Unless the injunction decree were modified, the only other course was to defy it, and to risk not only actual but treble damages in an infringement suit . . . It was the function of the Declaratory Relief Act to afford relief against such peril and insecurity . . .”

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<sup>13</sup>*Altvater v. Freeman, supra.*



In the *Lionel*<sup>14</sup> case the controversy was instituted by the defendant, by bringing suit against the plaintiff for royalties due under a license. The plaintiff had previously terminated the license. Thereafter plaintiff brought a declaratory judgment complaint seeking a declaration that plaintiffs "have a right to manufacture and sell the said articles" (the articles previously licensed) "without interference from the defendants and that the letters patent in question are invalid, . . ." The court held that it had jurisdiction to hear this question under the Act.

The *National*<sup>15</sup> case involved, *inter alia*, a Declaratory Judgment Act claim. The defendant-patentee's Motion to Dismiss was denied, the court noting:

"Here we have a controversy which is definite and concrete, touching the legal relations of the parties having adverse legal interests. The patentee, Ranney, defendant, made a claim that his patent was being infringed by notice to the present plaintiff's predecessor. The fact that the present plaintiff may not be liable for alleged past infringement by its predecessor does not negative a present controversy since it is holding and selling the same device and may be liable for present and future infringement."

The applicability of the *National* case to the present situation is manifest. Sani-Top is continuing now to do exactly the same thing as it did in 1956, and the 1956 activities of Sani-Top have been categorically charged by North American in Suit No. 20723 to come within the Beach patent. Therefore, since Sani-Top is, in the lan-

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<sup>14</sup>*Lionel v. DeFilipis* (D. C. N. Y., 1936), 15 Fed. Supp. 19, 28 U. S. P. Q. 369.

<sup>15</sup>*National v. France* (D. C. Ohio, 1952), 124 Fed. Supp. 503, 102 U. S. P. Q. 348.



guage of the Ohio Court, "holding and selling the same device and may be liable for present and future infringement", there is an actual controversy between Sani-Top and North American, which Sani-Top, in all justice, should be allowed to litigate under the Declaratory Judgment Act.

### 7. Defendant's Initial Demand Extended Beyond the Contract.

In Action No. 20723 North American modified its position as the litigation proceeded, that it regarded the contract claim as terminating on September 30, 1956 [Tr. p. 15]; yet in the initial complaint on November 13, 1956 an accounting was demanded "of all laminated sheet material postformed by defendant under said Process since August 20th, 1951 . . ." [Tr. p. 11.]

In the *Chicago*<sup>16</sup> case, Katzinger had licensed Chicago under certain Katzinger patents. Chicago had refused to pay royalties on certain of its products and Katzinger had brought suits in State Court to collect royalties under the license contract.

Thereupon, Chicago brought suit against Katzinger in District Court under the Declaratory Judgment Act alleging that an actual justiciable controversy under Katzinger's patent existed by virtue of Katzinger's claim that certain of Chicago's products came within the patent.

The District Court dismissed the action for lack of a justiciable controversy. The Court of Appeals reversed and held that the circumstances created a justiciable controversy such that Chicago (plaintiff) was entitled to an adjudication as to whether its product infringed the

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<sup>16</sup>*Chicago v. Katzinger* (C. C. A. 7, 1941), 123 F. 2d 518, 51 U. S. P. Q. 492.

patent and whether the patent was valid. The court stated that defendant's claim that plaintiff's product came within the licensed patent created an actual controversy between the parties.

The *Chicago* case is strikingly parallel to the present situation, where defendant North American has, in an earlier action (No. 20723), sued to collect royalties, alleging that the activity of plaintiff, Sani-Top, comes within the licensed patent. Sani-Top has not changed its process from a time before termination of the license to the present date, and is continuing to use the same method that constitutes the subject matter of the previously filed lawsuit (No. 20723) under the license agreement. Obviously, therefore, there exists a very real controversy as to whether Sani-Top's present process infringes North American's patent, and Sani-Top is entitled, under the Declaratory Judgment Act, to have this question measured against the patent laws of the United States, which require an investigation of the validity of the North American patent, because an invalid patent cannot be infringed.

As noted in the *Chicago*<sup>16</sup> case:

"The principal question presented by the complaint in this case is the validity of the patents. That question could not be litigated in the state court case, consequently the parties are not able to procure a full and immediate adjudication of their rights. Prior to the passage of the Declaratory Judgment Act, no one had a right under the patent laws to initiate a suit for affirmative relief in the form of an adjudication that another's patent was invalid; now the alleged infringer may sue."

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<sup>16</sup>*Chicago v. Katzinger, supra.*

In the earlier filed license contract action (No. 20723), the question of validity of the patent has been specifically ruled out of consideration. Therefore, Sani-Top, plaintiff herein, is entitled to an adjudication of that question in the present action.

North American's panicky retreat from its original position is not without significance. North American apparently recognized that its original position, seeking an accounting unlimited as to time, constituted a claim under the patent and not under the license. Thereupon, a retreat was made, and January 1, 1957, was selected as the cut-off date beyond which it did not demand an accounting [Tr. pp. 11-12; p. 3 of Supplementary Memorandum of Points and Authorities in Support of Motion For Stay].

Apprehensive still, North American later retreated again, and finally decided that September 30, 1956, was really the termination date beyond which an accounting was not sought [Tr. p. 15]. This was finally nailed down by North American's counsel on April 8, 1957, wherein he stated:

“Remember, we are seeking to recover royalties in this case down to September 30th and not beyond that date.” [Tr. p. 23.]

#### **8. Dismissal Should Not Be Predicated on Question of Fact Raised by Conflicting Affidavits.**

On April 8, 1957, counsel for defendant North American made the following statements [Tr. p. 10]:

“It is a fabricator of the material. It provides the raw material. It uses the process. It bends the material.

“ . . .

“Now the defendant is using the process continuously and is not paying royalties. We believe that

an accounting is necessary to determine the exact amount owing.”

Subsequently, North American’s counsel denied that he “intended” to say what he said:

“I categorically deny that I intended to state that subsequent to September 30, 1956, plaintiff herein was using the postforming process or that it was in any way infringing Patent No. 2,433,643.” [Tr. p. 15.]

However, the intention of North American or its counsel is immaterial; the important thing is whether the question has been so raised by North American or by its agents as to make plaintiff Sani-Top reasonably apprehensive that Sani-Top’s continuing activities were and are regarded by North American as coming within the Beach patent.

In the *Bliss*<sup>17</sup> case, only “a cordial letter” was involved. The word “infringing” was not employed. The strongest term was a statement that the plaintiff’s mills were “similar” to the patented mills of the defendant-patentee. The court nonetheless held that a sufficient controversy existed to give jurisdiction under the Act, noting:

“That question having been raised by defendant (*perhaps unintentionally*), plaintiff should not be denied the right to a declaratory judgment by a mere play on words.” (Emphasis added.)

But if the intention of the speaker is material, then the District Court erred in resolving this question on conflicting affidavits [Tr. pp. 10, 15].

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<sup>17</sup>*Bliss v. Cold Metal* (D. C. Ohio, 1955), 137 Fed. Supp. 676, 108 U. S. P. Q. 47.

Conflicts in affidavits in a Motion to Dismiss a Complaint will not support the Judgment of the District Court; plaintiff is entitled to a trial to determine any fact questions.

In the *Hart*<sup>18</sup> case the District Court summarily dismissed plaintiff's complaint. The Appeal Court reversed and remanded, stating:

"It is well settled that on motions to dismiss and for summary judgment, affidavits filed in their support may be considered for the purpose of *ascertaining whether an issue of fact is presented, but they cannot be used as a basis for deciding the fact issue*. An affidavit cannot be treated, for purposes of the motion to dismiss, as proof contradictory to well-pleaded facts in the complaint . . .

"It is also well settled that on a motion to dismiss the complaint must be viewed in the light most favorable to the plaintiff and that the complaint should not be dismissed unless it appears to a certainty that the plaintiff would not be entitled to relief under any state of facts which could be proved in support of his claim; further, no matter how likely it may seem that the pleader will be unable to prove his case, he is entitled, upon averring a claim, to an opportunity to try to prove it."

Plaintiff Sani-Top has averred sufficient facts to establish a justiciable controversy [Tr. pp. 4-5], and is entitled to an opportunity to establish those facts.

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<sup>18</sup>*Hart v. Recordgraph* (C. C. A. 3, 1948), 169 F. 2d 580, 78 U. S. P. Q. 310.



## 9. Arguments of Counsel Bind Defendant.

In the *Telechron*<sup>19</sup> case the defendant attempted to “blunt the statements made” by defendant’s counsel concerning infringement.

“ . . . by asserting that the letter was merely the expression of his own opinion as distinguished from that of his client, and that, in fact, he had no authority to write such letter. It is to be noted, however, that there is no disclaimer of the letter under discussion on the part of Parissi. The letter was not expressly withdrawn as in the case of *Uniflow Mfg. Co. v. Iraq Corp.*, 88 U. S. P. Q. 52. Neither is there any affidavit by Parissi or statement made by him which would indicate that he himself does not claim infringement of his patents by the plaintiffs.”

In the present case it is to be noted that defendant North American has not disclaimed the unambiguous language of counsel, which language verbatim is admitted by defendant:

“It is a fabricator of the material . . . It uses the process . . . Now the defendant *is using* the process *continuously* and *is not* paying royalties.”  
[Tr. p. 10.] (Emphasis added.)

Counsel’s attempt to construe this language as applicable only to events which took place *three months previously* is untenable. Every verb—every adverb—is in the *present tense*—“is using”—“continuously—is not”.

This statement of counsel has not been refuted or negatived in any way by defendant North American. Surely this statement, standing alone, is enough to place Sani-Top in apprehension of some subsequent suit for patent in-

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<sup>19</sup>*Telechron v. Parissi* (D. C. N. Y., 1951), 136 Fed. Supp. 355, 89 U. S. P. Q. 136.

fringement to be brought (if defendant would have its way) at defendant's pleasure.

In the *Millway*<sup>9</sup> case the court noted:

“ . . . it was so stated by the defendant's counsel at the argument of this motion—that the defendant considers that the stocking made and sold by the plaintiff infringes the defendant's patent, . . .”  
(Emphasis added.)

In the present situation *counsel for North American has stated in open court that the process used by Sani-Top comes within the North American patent*. Counsel now attempts to limit and construe his remark to a period prior to January 1, 1957; but even if this limitation be accepted, the fact remains that North American has taken and still does take the position that Sani-Top's process as practiced in 1956 comes within the Beach patent; and Sani-Top has not changed the character of its process since that time. Therefore, Sani-Top has a very real reason to believe that it is North American's position that the Beach patent is infringed by Sani-Top's current activity.

## 10. Summary.

A formal accusation using the term “infringement” is not necessary. Statements by representatives of North American clearly indicate that it is North American's opinion that the present activities of Sani-Top come within the North American patent. This is sufficient to create a justiciable controversy under the Act.

North American's evasion and refusal to allay Sani-Top's apprehension of a future infringement suit does not dispel the controversy, but rather emphasizes that a con-

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<sup>9</sup>*Millway v. Sanson, supra.*



troverſy does exiſt. The Diſtrict Court's ſhielding of North American by not requiring Sani-Top's interrogatories to be answered poignantly ſtresses Sani-Top's need for the relief ſought in this complaint.

North American's ſucceſſive retreat in its demand for an accounting, firſt, from an unlimited time, thence, to a period terminating January 1, 1957, and finally to a period terminating September 30, 1956, evidences North American's recognition that it had, in fact, charged Sani-Top with a demand for an accounting under the patent and not under the license, which is tantamount to a claim of patent infringement.

Neither North American nor its counſel has ever denied or renounced counſel's charges regarding Sani-Top's activities. An attempt to conſtrue theſe charges fell far ſhort of meeting the iſſue. Counſel's ſtatement "We may of course at a later date, in another proceeding, file an infringement caſe, but that is our choice and not the defendant's choice" is precisely the attitude that the Declaratory Judgment Act was deſigned to ſpike.

## 11. Conclusion.

A review of the record from beginning to end leads to the inescapable conclusion that defendant North American regards the activities of plaintiff Sani-Top as coming within the process covered by North American's patent. This creates an actual controversy between the parties entitling plaintiff to a judicial declaration under the Declaratory Judgment Act.

Respectfully submitted,

HERZIG & JESSUP,

By WARREN T. JESSUP,

*Counsel for Plaintiff-Appellant.*